



## Urban Communities in the 21st Century:

From Industrialization to Sustainability

Edited by Malo Andre Hutson

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# Sneak Preview



# Urban Communities in the 21st Century

*From Industrialization to Sustainability*

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# Introduction

## Urban Communities in 21st Century

Malo André Hutson

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**W**hy study urban communities? Why care about changing demographics and the growth of metropolitan areas? There are several reasons. *First*, the world is becoming more urbanized. According to the United Nations, nearly three-fourths of the population will reside in urban areas (UN, 2008). By 2030, an estimated 5 billion people (60% of the global population) will live in cities (World Resources Institute, 2010). These statistics mean that many of us reading this book live, or will live, in urban communities. *Second*, here in the United States, the growth of cities and surrounding suburban areas is significantly changing our demographics. Demographic changes in turn drastically alter the political and social landscape of our urban communities. So policies and programs tailored to benefit the urban communities of yesterday may not work today. *Third*, the growth of metropolitan areas—in terms of space and population—challenges both local and regional political and governance systems because diverse communities have varying needs. So growth in metropolitan areas demands short- and long-term planning to address physical infrastructure and diverse regional and economic development needs. *Finally*, we are constantly learning about the environmental consequences of how we live. Thus, as the metropolitan population grows and suburban sprawl increases, we will need to find innovative ways to accommodate this growth while building environmentally sustainable communities. The primary goal of city leaders, after all, should be to give people access to a healthy environment and adequate economic, political and social opportunities.

### WHY DEMOGRAPHIC TRENDS MATTER

How are our demographics changing within urban communities within the United States? And why does this matter? Over the last 50 years, metropolitan areas have become increasingly ethnically and racially diverse as immigration patterns has shifted from primarily Western Europe to Asia, Latin America and the Caribbean (Judd and

Swanstrom, 2008). Today, central cities are no longer the bastion of diversity; now many suburban communities consist of racial and ethnic minorities, resulting in what many have coined “multiethnic suburbs” (Judd and Swanstrom, 2008). In metropolitan areas such as Miami, New York, Chicago, Houston, Los Angeles, and Washington, D.C., diverse immigrant populations are shaping the political, social, and cultural landscape. For example, population growth and increased diversity allow for new ideas, cultures, arts and innovation to come together and influence each other. Demographic shifts are also changing the voting age population and diversifying the cultural, religious and business institutions present in our metropolitan communities. Thus, current demographic trends will shape the political, social and economic system at the local and regional level, and these trends will in turn impact and shape the United States as a whole.

## **MODERN CHALLENGES FACING URBAN GOVERNANCE AND DEVELOPMENT**

As metropolitan areas increase in population and continue to spread out spatially, this presents challenges. Many cities in moderately sized metropolitan areas compete with each other for tax revenue from businesses and affluent residents with disposable income. Often, transit systems, social services and urban development are not well integrated from one city or county to the next. This lack of regional coordination and collaboration results in uneven development. Uneven development in turn can cause large disparities in levels of poverty, wealth, quality of education and housing, economic opportunities and health. Accordingly, a greater understanding of urban communities and development patterns can help urban planners, political scientists, economists, public health practitioners and others develop comprehensive solutions and approaches to address the complex challenges that arise with increased urbanization.

## **EFFORTS TO BUILD EQUITABLE, SUSTAINABLE AND HEALTHY COMMUNITIES**

Finally, the growth of metropolitan areas presents environmental challenges to urban communities across the United States. Many urban communities struggle to find ways to balance growth, economic development and environmental concerns. For example in California, metropolitan areas are trying to curb greenhouse gas emissions (GHG) by relying on local Metropolitan Planning Organizations (MPOs) to develop “Sustainable Communities Strategies” to achieve quantifiable targets through development and better coordination (Altaier et al., 2009). Many cities are also creating, or have created, sustainability plans that lay out their development and economic strategies that balance environment protections with growth and prosperity.

The shift towards green economic development has created a “green economy,” centered on the production of environmentally friendly goods and services. Nationwide,



city leaders are creating job opportunities in sectors such as clean energy, renewable energy and alternative fuels (e.g. solar, wind, geothermal, biofuels), green building and energy efficiency technology, energy efficient infrastructure and transportation, and recycling and waste-to-energy (Chapple and Hutson, 2010). This strategy may benefit residents in metropolitan communities as cities are designed to be more sustainable.

Residents living within urban communities are also coming together to create healthier environments by focusing on their access to fresh food through the use of urban gardens, the establishment of farmer's markets, and the attraction and retention of supermarkets that sell organic and fresh food. And increasingly, institutions and organizations are addressing issues related to environmental justice and health inequities. Consequently, the momentum within urban communities is growing to better understand how the built environment and health are interrelated, and to develop strategies and solutions that make urban communities safe and healthy places to live.

## THE URBAN COMMUNITY AND THE INDIVIDUAL

In the chapters ahead, you will see that where you live matters—because where you live can determine your access to safe neighborhoods, quality housing, healthcare and education, and economic opportunities. And there are many external factors that determine whether where you live provides you more or less access to these quality of life indicators. External social, political and economic forces can shape policies, programs and the physical environment of communities. But as our readings will show, these external variables are not the only factors that shape an urban community, or a person's quality of life within that community. Individuals have the autonomy to shape their communities through civic participation, voting, community organizing, mobilizing and protests, all of which can create positive change.

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# The Interests of the Limited City

Paul E. Peterson

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**L**ike all social structures, cities have interests. Just as we can speak of union interests, judicial interests, and the interests of politicians, so we can speak of the interests of that structured system of social interactions we call a city. Citizens, politicians, and academics are all quite correct in speaking freely of the interests of cities.<sup>1</sup>

## DEFINING THE CITY INTEREST

By a city's interest, I do not mean the sum total of the interests of those individuals living in the city. For one thing, these are seldom, if ever, known. The wants, needs, and preferences of residents continually change, and few surveys of public opinion in particular cities have ever been taken. Moreover, the residents of a city often have discordant interests. Some want more parkland and better schools; others want better police protection and lower taxes. Some want an elaborated highway system; others wish to keep cars out of their neighborhood. Some want more inexpensive, publicly subsidized housing; others wish to remove the public housing that exists. Some citizens want improved welfare assistance for the unemployed and dependent; others wish to cut drastically all such programs of public aid. Some citizens want rough-tongued ethnic politicians in public office; others wish that municipal administration were a gentleman's calling. Especially in large cities, the cacophony of competing claims by diverse class, race, ethnic, and occupational groups makes impossible the determination of any overall city interest—any public interest, if you like—by compiling all the demands and desires of individual city residents.

Some political scientists have attempted to discover the overall urban public interest by summing up the wide variety of individual interests. The earlier work of Edward Banfield, still worth examination, is perhaps the most persuasive effort of this kind.<sup>2</sup> He argued that urban political processes—or at least those in Chicago—allowed for the expression of nearly all the particular interests within the city. Every significant interest

Paul E. Peterson, "The Interests of the Limited City," from *The Politics of Urban America*. Ed. Dennis R. Judd and Paul Kantor, pp. 17–40. Copyright © 1998 University of Chicago Press. Permission to reprint granted by the publisher.

was represented by some economic firm or voluntary association, which had a stake in trying to influence those public policies that touched its vested interests. After these various groups and firms had debated and contended, the political leader searched for a compromise that took into account the vital interests of each, and worked out a solution all could accept with some satisfaction. The leader's own interest in sustaining his political power dictated such a strategy.

Banfield's argument is intriguing, but few people would identify public policies as being in the interest of the city simply because they have been formulated according to certain procedures. The political leader might err in his judgment; the interests of important but politically impotent groups might never get expressed; or the consequences of a policy might in the long run be disastrous for the city. Moreover, most urban policies are not hammered out after great controversy, but are the quiet product of routine decision making. How does one evaluate which of these are in the public interest? Above all, this mechanism for determining the city's interest provides no standpoint for evaluating the substantive worth of urban policies. Within Banfield's framework, whatever urban governments do is said to be in the interest of their communities. But the concept of city interest is used most persuasively when there are calls for reform or innovation. It is a term used to evaluate existing programs and to discriminate between promising and undesirable new ones. To equate the interests of cities with what cities are doing is to so impoverish the term as to make it quite worthless.

The economist Charles Tiebout employs a second approach to the identification of city interests.<sup>3</sup> Unlike Banfield, he does not see the city's interests as a mere summation of individual interests but as something which can be ascribed to the entity, taken as a whole. As an economist, Tiebout is hardly embarrassed by such an enterprise, because in ascribing interests to cities his work parallels both those orthodox economists who state that firms have an interest in maximizing profits and those welfare economists who claim that politicians have an interest in maximizing votes. Of course, they state only that their model will assume that firms and politicians behave in such a way, but insofar as they believe their model has empirical validity, they in fact assert that those constrained by the businessman's or politician's role must pursue certain interests. And so does Tiebout when he says that communities seek to attain the optimum size for the efficient delivery of the bundle of services the local government produces. In his words, "Communities below the optimum size seek to attract new residents to lower average costs. Those above optimum size do just the opposite. Those at an optimum try to keep their populations constant."<sup>4</sup>

Tiebout's approach is in many ways very attractive. By asserting a strategic objective that the city is trying to maximize—optimum size—Tiebout identifies an overriding interest which can account for specific policies the city adopts. He provides a simple analytical tool that will account for the choices cities make, without requiring complex investigations into citizen preferences and political mechanisms for identifying and amalgamating the same. Moreover, he provides a criterion for determining whether a

specific policy is in the interest of the city—does it help achieve optimum size? Will it help the too small city grow? Will it help the too big city contract? Will it keep the optimally sized city in equilibrium? Even though the exact determination of the optimum size cannot presently be scientifically determined in all cases, the criterion does provide a most useful guide for prudential decision making.

The difficulty with Tiebout's assumption is that he does not give very good reasons for its having any plausibility. When most economists posit a certain form of maximizing behavior, there is usually a good commonsense reason for believing the person in that role will have an interest in pursuing this strategic objective. When orthodox economists say that businessmen maximize profits, it squares with our understanding in everyday life that people engage in commercial enterprises for monetary gain. The more they make, the better they like it. The same can be said of those welfare economists who say politicians maximize votes. The assumption, though cynical, is in accord with popular belief—and therefore once again has a certain plausibility.

By contrast Tiebout's optimum size thesis diverges from what most people think cities are trying to do. Of course, smaller communities are often seeking to expand—boosterism may be the quintessential characteristic of small-town America. Yet Tiebout takes optimum size, not growth or maximum size, as the strategic objective. And when Tiebout discusses the big city that wishes to shrink to optimum size, his cryptic language is quite unconvincing. "The case of the city that is too large and tries to get rid of residents is more difficult to imagine," he confesses. Even more, he concedes that "no alderman in his right political mind would ever admit that the city is too big." "Nevertheless," he continues, "economic forces are at work to push people out of it. Every resident who moves to the suburbs to find better schools, more parks, and so forth, is reacting, in part, against the pattern the city has to offer."<sup>5</sup> In this crucial passage Tiebout speaks neither of local officials nor of local public policies. Instead, he refers to "economic forces" that may be beyond the control of the city and of "every resident," each of whom may be pursuing his own interests, not that of the community at large.

The one reason Tiebout gives for expecting cities to pursue optimum size is to lower the average cost of public goods. If public goods can be delivered most efficiently at some optimum size, then migration of residents will occur until that size has been reached. In one respect Tiebout is quite correct: local governments must concern themselves with operating local services as efficiently as possible in order to protect the city's economic interests. But there is little evidence that there is an optimum size at which services can be delivered with greatest efficiency. And even if such an optimum did exist, it could be realized only if migration occurred among residents who paid equal amounts in local taxes. In the more likely situation, residents pay variable prices for public services (for example, the amount paid in local property taxes varies by the value of the property). Under these circumstances, increasing size to the optimum does not reduce costs to residents unless newcomers pay at least as much in taxes as the

marginal increase in costs their arrival imposes on city government.<sup>6</sup> Conversely, if a city needs to lose population to reach the optimum, costs to residents will not decline unless the exiting population paid less in taxes than was the marginal cost of providing them government services. In most big cities losing population, exactly the opposite is occurring. Those who pay more in taxes than they receive in services are the emigrants. Tiebout's identification of city interests with optimum size, while suggestive, falls to take into account the quality as well as the quantity of the local population.

The interests of cities are neither a summation of individual interests nor the pursuit of optimum size. Instead, policies and programs can be said to be in the interest of cities whenever the policies maintain or enhance the economic position, social prestige, or political power of the city, taken as a whole.<sup>7</sup>

Cities have these interests because cities consist of a set of social interactions structured by their location in a particular territorial space. Any time that social interactions come to be structured into recurring patterns, the structure thus formed develops an interest in its own maintenance and enhancement. It is in that sense that we speak of the interests of an organization, the interests of the system, and the like. To be sure, within cities, as within any other structure, one can find diverse social roles, each with its own set of interests. But these varying role interests, as divergent and competing as they may be, do not distract us from speaking of the overall interests of the larger structural entity.<sup>8</sup>

The point can be made less abstractly. A school system is a structured form of social action, and therefore it has an interest in maintaining and improving its material resources, its prestige, and its political power. Those policies or events which have such positive effects are said to be in the interest of the school system. An increase in state financial aid or the winning of the basketball tournament are events that, respectively, enhance the material well-being and the prestige of a school system and are therefore in its interest. In ordinary speech this is taken for granted, even when we also recognize that teachers, pupils, principals, and board members may have contrasting interests as members of differing role-groups within the school.

Although social roles performed within cities are numerous and conflicting, all are structured by the fact that they take place in a specific spatial location that falls within the jurisdiction of some local government. All members of the city thus come to share an interest in policies that affect the well-being of that territory. Policies which enhance the desirability or attractiveness of the territory are in the city's interest, because they benefit all residents—in their role as residents of the community. Of course, in any of their other social roles, residents of the city may be adversely affected by the policy. The Los Angeles dope peddler—in his role as peddler—hardly benefits from a successful drive to remove hard drugs from the city. On the other hand, as a resident of the city, he benefits from a policy that enhances the attractiveness of the city as a locale in which to live and work. In determining whether a policy is in the interest of a city, therefore, one does not consider whether it has a positive or negative effect on the total

range of social interactions of each and every individual. That is an impossible task. To know whether a policy is in a city's interest, one has to consider only the impact on social relationships insofar as they are structured by their taking place within the city's boundaries.

An illustration from recent policy debates over the future of our cities reveals that it is exactly with this meaning that the notion of a city's interest is typically used. The tax deduction that homeowners take on their mortgage interest payments should be eliminated, some urbanists have argued. The deduction has not served the interests of central cities, because it has provided a public subsidy for families who purchase suburban homes. Quite clearly, elimination of this tax deduction is not in the interest of those central city residents who wish to purchase a home in the suburbs. It is not in the interest of those central city homeowners (which in some cities may even form a majority of the voting population), who would then be called upon to pay higher federal taxes. But the policy might very well improve the rental market in the central city, thereby stimulating its economy—and it is for this reason that the proposal has been defended as being in the interest of central cities.

To say that people understand what, generally, is in the interest of cities does not eliminate debate over policy alternatives in specific instances. The notion of city interest can be extremely useful, even though its precise application in specific contexts may be quite problematic. In any policy context one cannot easily assert that one "knows" what is in the interest of cities, whether or not the residents of the city agree. But city residents do know the kind of evidence that must be advanced and the kinds of reasons that must be adduced in order to build a persuasive case that a policy is in the interest of cities. And so do community leaders, mayors, and administrative elites.

## ECONOMIC INTERESTS

Cities, like all structured social systems, seek to improve their position in all three of the systems of stratification—economic, social, and political—characteristic of industrial societies. In most cases, improved standing in any one of these systems helps enhance a city's position in the other two. In the short run, to be sure, cities may have to choose among economic gains, social prestige, and political weight. And because different cities may choose alternative objectives, one cannot state any one overarching objective—such as improved property values—that is always the paramount interest of the city. But inasmuch as improved economic or market standing seems to be an objective of great importance to most cities, I shall concentrate on this interest and only discuss in passing the significance of social status and political power.

Cities constantly seek to upgrade their economic standing. Following Weber, I mean by this that cities seek to improve their market position, their attractiveness as a locale for economic activity. In the market economy that characterizes Western society, an advantageous economic position means a competitive edge in the production and

distribution of desired commodities relative to other localities. When this is present, cities can export goods and/or services to those outside the boundaries of the community.

Some regional economists have gone so far as to suggest that the welfare of a city is identical to the welfare of its export industry.<sup>9</sup> As exporters expand, the city grows. As they contract, the city declines and decays. The economic reasoning supporting such a conclusion is quite straightforward. When cities produce a good that can be sold in an external market, labor and capital flow into the city to help increase the production of that good. They continue to do so until the external market is saturated—that is, until the marginal cost of production within the city exceeds the marginal value of the good external to the city. Those engaged in the production of the exported good will themselves consume a variety of other goods and services, which other businesses will provide. In addition, subsidiary industries locate in the city either because they help supply the exporting industry, because they can utilize some of its by-products, or because they benefit by some economies of scale provided by its presence. Already, the familiar multiplier is at work. With every increase in the sale of exported commodities, there may be as much as a four or fivefold increase in local economic activity.

The impact of Boeing Aircraft's market prospects on the economy of the Seattle metropolitan area illustrates the importance of export to regional economies. In the late sixties defense and commercial aircraft contracts declined, Boeing laid off thousands of workmen, the economy of the Pacific Northwest slumped, the unemployed moved elsewhere, and Seattle land values dropped sharply. More recently, Boeing has more than recovered its former position. With rapidly expanding production at Boeing, the metropolitan area is enjoying low unemployment, rapid growth, and dramatically increasing land values.

The same multiplier effect is not at work in the case of goods and services produced for domestic consumption within the territory. What is gained by a producer within the community is expended by other community residents. Residents, in effect, are simply taking in one another's laundry. Unless productivity increases, there is no capacity for expansion.

If this economic analysis is correct, it is only a modest oversimplification to equate the interests of cities with the interests of their export industries. Whatever helps them prosper redounds to the benefit of the community as a whole—perhaps four and five times over. And it is just such an economic analysis that has influenced many local government policies. Especially the smaller towns and cities may provide free land, tax concessions, and favorable utility rates to incoming industries.

The smaller the territory and the more primitive its level of economic development, the more persuasive is this simple export thesis. But other economists have elaborated an alternative growth thesis that is in many ways more persuasive, especially as it relates to larger urban areas. In their view a sophisticated local network of public and private services is the key to long-range economic growth. Since the world economy is constantly changing, the economic viability of any particular export industry is highly

variable. As a result, a community dependent on any particular set of export industries will have only an episodic economic future. But with a well-developed infrastructure of services the city becomes an attractive locale for a wide variety of export industries. As older exporters fade, new exporters take their place and the community continues to prosper. It is in the city's interest, therefore, to help sustain a high-quality local infrastructure generally attractive to all commerce and industry.

I have no way of evaluating the merits of these contrasting economic arguments. What is important in this context is that both see exports as being of great importance to the well-being of a city. One view suggests a need for direct support of the export industry; the other suggests a need only for maintaining a service infrastructure, allowing the market to determine which particular export industry locates in the community. Either one could be the more correct diagnosis for a particular community, at least in the short run. Yet both recognize that the future of the city depends upon exporting local products. When a city is able to export its products, service industries prosper, labor is in greater demand, wages increase, promotional opportunities widen, land values rise, tax revenues increase, city services can be improved, donations to charitable organizations become more generous, and the social and cultural life of the city is enhanced.

To export successfully, cities must make efficient use of the three main factors of production: land, labor, and capital.<sup>10</sup>

## LAND

Land is the factor of production that cities control. Yet land is the factor to which cities are bound. It is the fact that cities are spatially defined units whose boundaries seldom change that gives permanence to their interests. City residents come and go, are born and die, and change their tastes and preferences. But the city remains wedded to the land area with which it is blessed (or cursed). And unless it can alter that land area, through annexation or consolidation, it is the long-range value of that land which the city must secure—and which gives a good approximation of how well it is achieving its interests.

Land is an economic resource. Production cannot occur except within some spatial location. And because land varies in its economic potential, so do the economic futures of cities. Historically, the most important variable affecting urban growth has been an area's relationship to land and water routes.

On the eastern coast of the United States, all the great cities had natural harbors that facilitated, commercial relations with Europe and other coastal communities. Inland, the great industrial cities all were located on either the Great Lakes or the Ohio River-Mississippi River system. The cities of the West, as Elazar has shown, prospered according to their proximity to East-West trade flows.<sup>11</sup> Denver became the predominant city of the mountain states because it sat at the crossroads of land routes through the Rocky



Mountains, Duluth, Minnesota, had only limited potential, even with its Great Lakes location, because it lay north of all major routes to the West.

Access to waterways and other trade routes is not the only way a city's life is structured by its location. Its climate determines the cost and desirability of habitation; its soil affects food production in the surrounding area; its terrain affects drainage, rates of air pollution, and scenic beauty. Of course, the qualities of landscape do not permanently fix a city's fate—it is the intersection of that land and location with the larger national and world economy that is critical. For example, cities controlling access to waterways by straddling natural harbors at one time monopolized the most valuable land in the region, and from that position they dominated their hinterland. But since land and air transport have begun to supplant, not just supplement, water transport, the dominance of these once favored cities has rapidly diminished.

Although the economic future of a city is very much influenced by external forces affecting the value of its land, the fact that a city has control over the use of its land gives it some capacity for influencing that future. Although there are constitutional limits to its authority, the discretion available to a local government in determining land use remains the greatest arena for the exercise of local autonomy. Cities can plan the use of local space; cities have the power of eminent domain; through zoning laws cities can restrict all sorts of land uses; and cities can regulate the size, content, and purpose of buildings constructed within their boundaries. Moreover, cities can provide public services in such a way as to encourage certain kinds of land use. Sewers, gas lines, roads, bridges, tunnels, playgrounds, schools, and parks all impinge on the use of land in the surrounding area. Urban politics is above all the politics of land use, and it is easy to see why. Land is the factor of production over which cities exercise the greatest control.

## LABOR

To its land area the city must attract not only capital but productive labor. Yet local governments in the United States are very limited in their capacities to control the flow of these factors. Lacking the more direct controls of nation-states, they are all the more constrained to pursue their economic interests in those areas where they do exercise authority.

Labor is an obvious case in point. Since nation-states control migration across their boundaries, the industrially more advanced have formally legislated that only limited numbers of outsiders—for example, relatives of citizens or those with skills needed by the host country—can enter. In a world where it is economically feasible for great masses of the population to migrate long distances, this kind of restrictive legislation seems essential for keeping the nation's social and economic integrity intact. Certainly, the wage levels and welfare assistance programs characteristic of advanced industrial societies could not be sustained were transnational migration unencumbered.

Unlike nation-states, cities cannot control movement across their boundaries. They no longer have walls, guarded and defended by their inhabitants. And as Weber correctly noted, without walls cities no longer have the independence to make significant choices in the way medieval cities once did.<sup>12</sup> It is true that local governments often try to keep vagrants, bums, paupers, and racial minorities out of their territory. They are harassed, arrested, thrown out of town, and generally discriminated against. But in most of these cases local governments act unconstitutionally, and even this illegal use of the police power does not control migration very efficiently.

Although limited in its powers, the city seeks to obtain an appropriately skilled labor force at wages lower than its competitors so that it can profitably export commodities. In larger cities a diverse work force is desirable. The service industry, which provides the infrastructure for exporters, recruits large numbers of unskilled workers, and many manufacturing industries need only semiskilled workers. When shortages in these skill levels appear, cities may assist industry in advertising the work and living opportunities of the region. In the nineteenth century when unskilled labor was in short supply, frontier cities made extravagant claims to gain a competitive edge in the supply of ordinary labor.

Certain sparsely populated areas, such as Alaska, occasionally advertise for unskilled labor even today. However, competition among most cities is now for highly skilled workers and especially for professional and managerial talent. In a less than full-employment economy, most communities have a surplus of semiskilled and unskilled labor. Increases in the supply of unskilled workers increase the cost of the community's social services. Since national wage laws preclude a decline in wages below a certain minimum, the increases in the cost of social services are seldom offset by lower wages for unskilled labor in those areas where the unemployed concentrate. But even with high levels of unemployment, there remains a shortage of highly skilled technicians and various types of white collar workers. Where shortages develop, the prices these workers can command in the labor market may climb to a level where local exports are no longer competitive with goods produced elsewhere. The economic health of a community is therefore importantly affected by the availability of professional and managerial talent and of highly skilled technicians.

When successfully pursuing their economic interests, cities develop a set of policies that will attract the more skilled and white collar workers without at the same time attracting unemployables. Of course, there are limits on the number of things cities can do. In contrast to nation-states they cannot simply forbid entry to all but the highly talented whose skills they desire. But through zoning laws they can ensure that adequate land is available for middle-class residences. They can provide parks, recreation areas, and good-quality schools in areas where the economically most productive live. They can keep the cost of social services, little utilized by the middle class, to a minimum, thereby keeping local taxes relatively low. In general, they can try to ensure that the benefits of public service outweigh their costs to those highly skilled workers,

managers, and professionals who are vital for sustaining the community's economic growth.

## CAPITAL

Capital is the second factor of production that must be attracted to an economically productive territory. Accordingly, nation-states place powerful controls on the flow of capital across their boundaries. Many nations strictly regulate the amount of national currency that can be taken out of the country. They place quotas and tariffs on imported goods. They regulate the rate at which national currency can be exchanged with foreign currency. They regulate the money supply, increasing interest rates when growth is too rapid, lowering interest rates when growth slows down. Debt financing also allows a nation-state to undertake capital expenditures and to encourage growth in the private market. At present the powers of nation-states to control capital flow are being used more sparingly and new supranational institutions are developing in their place. Market forces now seem more powerful than official policies in establishing rates of currency exchange among major industrial societies. Tariffs and other restrictions on trade are subject to retaliation by other countries, and so they must be used sparingly. The economies of industrialized nations are becoming so interdependent that significant changes in the international political economy seem imminent, signaled by numerous international conferences to determine worldwide growth rates, rates of inflation, and levels of unemployment. If these trends continue, nation-states may come to look increasingly like local governments.

But these developments at the national level have only begun to emerge. At the local level in the United States, cities are much less able to control capital flows. In the first place, the Constitution has been interpreted to mean that states cannot hinder the free flow of goods and monies across their boundaries. And what is true of states is true of their subsidiary jurisdictions as well. In the second place, states and localities cannot regulate the money supply. If unemployment is low, they cannot stimulate the economy by increasing the monetary flow. If inflationary pressures adversely affect their competitive edge in the export market, localities can neither restrict the money supply nor directly control prices and wages. All of these powers are reserved for national governments. In the third place, local governments cannot spend more than they receive in tax revenues without damaging their credit or even running the risk of bankruptcy. Pump priming, sometimes a national disease, is certainly a national prerogative.

Local governments are left with a number of devices for enticing capital into the area. They can minimize their tax on capital and on profits from capital investment. They can reduce the costs of capital investment by providing low-cost public utilities, such as roads, sewers, lights, and police and fire protection. They can even offer public land free of charge or at greatly reduced prices to those investors they are particularly anxious to attract. They can provide a context for business operations free of undue

harassment or regulation. For example, they can ignore various external costs of production, such as air pollution, water pollution, and the despoliation of trees, grass, and other features of the landscape. Finally, they can discourage labor from unionizing so as to keep industrial labor costs competitive.

This does not mean it behooves cities to allow any and all profit-maximizing action on the part of an industrial plant. Insofar as the city desires diversified economic growth, no single company can be allowed to pursue policies that seriously detract from the area's overall attractiveness to capital or productive labor. Taxes cannot be so low that government fails to supply residents with as attractive a package of services as can be found in competitive jurisdictions. Regulation of any particular industry cannot fall so far below nationwide standards that other industries must bear external costs not encountered in other places. The city's interest in attracting capital does not mean utter subservience to any particular corporation, but a sensitivity to the need for establishing an overall favorable climate.

In sum, cities, like private firms, compete with one another so as to maximize their economic position. To achieve this objective, the city must use the resources its land area provides by attracting as much capital and as high a quality labor force as is possible. Like a private firm, the city must entice labor and capital resources by offering appropriate inducements. Unlike the nation-state, the American city does not have regulatory powers to control labor and capital flows. The lack thereof sharply limits what cities can do to control their economic development, but at the same time the attempt by cities to maximize their interests within these limits shapes policy choice.

## LOCAL GOVERNMENT AND THE INTERESTS OF CITIES

Local government leaders are likely to be sensitive to the economic interests of their communities. First, economic prosperity is necessary for protecting the fiscal base of a local government. In the United States, taxes on local sources and charges for local services remain important components of local government revenues. Although transfers of revenue to local units from the federal and state governments increased throughout the postwar period, as late as 1975–76 local governments still were raising almost 59 percent of their own revenue.<sup>13</sup> Raising revenue from one's own economic resources requires continuing local economic prosperity. Second, good government is good politics. By pursuing policies which contribute to the economic prosperity of the local community, the local politician selects policies that redound to his own political advantage. Local politicians, eager for relief from the cross-pressures of local politics, assiduously promote goals that have widespread benefits. And few policies are more popular than economic growth and prosperity. Third, and most important, local officials usually have a sense of community responsibility. They know that, unless the economic well-being of the community can be maintained, local business will suffer, workers will lose employment opportunities, cultural life will decline, and city land

values will fall. To avoid such a dismal future, public officials try to develop policies that assist the prosperity of their community—or, at the very least, that do not seriously detract from it. Quite apart from any effects of economic prosperity on government revenues or local voting behavior, it is quite reasonable to posit that local governments are primarily interested in maintaining the economic vitality of the area for which they are responsible.

Accordingly, governments can be expected to attempt to maximize this particular goal—within the numerous environmental constraints with which they must contend. As policy alternatives are proposed, each is evaluated according to how well it will help to achieve this objective. Although information is imperfect and local governments cannot be expected to select the one best alternative on every occasion, policy choices over time will be limited to those few which can plausibly be shown to be conducive to the community's economic prosperity. Internal disputes and disagreements may affect policy on the margins, but the major contours of local revenue policy will be determined by this strategic objective.

## NOTES

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